



# 401(k) Plans for Self-Employed Individuals Fact? Or Fiction?

Tax Exempt and Government Entities

Employee Plans

2008 IRS Nationwide Tax Forum

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# 401(k) Plans for Self-Employed Individuals

A 401(k) plan for a self-employed individual is a new kind of plan.

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 Fact? Or Fiction?

 Fiction.

# 401(k) Plans for Self-Employed Individuals

If I have two jobs, I can contribute the maximum to both plans.

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 Fact? Or Fiction?

 Fiction.

# 401(k) Plans for Self-Employed Individuals

I can contribute more with a 401(k) plan than with other types of retirement plans.

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 Fact? Or Fiction?

 It depends.

# 401(k) Plans for Self-Employed Individuals

Example 1: Maximum contribution based on \$50,000 W-2 comp, owner/employee age 50

Plan Type	Contribution			
	EE	Catch-up	ER	Total
401(k)	\$15,500	\$5,000	\$12,500	\$33,000
SEP	\$ 0	\$ 0	\$12,500	\$12,500
SIMPLE	\$10,500	\$2,500	\$1,500	\$14,500

# 401(k) Plans for Self-Employed Individuals

Example 2: Maximum contribution based on \$184,000 W-2 comp, owner/employee age 50

Plan Type	Contribution			
	EE	Catch-up	ER	Total
401(k)	\$15,500	\$5,000	\$30,500	\$51,000
SEP	\$ 0	\$ 0	\$46,000	\$46,000
SIMPLE	\$10,500	\$2,500	\$5,520	\$18,520

# 401(k) Plans for Self-Employed Individuals

If I am the only participant and have a 401(k) plan, I don't have to file any annual Form 5500 returns.

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 Fact? Or Fiction?

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# 401(k) Plans for Self-Employed Individuals

If additional employees are hired, they don't have to be covered under a 401(k) plan for self-employed individuals.

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 Fact? Or Fiction?

 Fiction.

# 401(k) Plans for Self-Employed Individuals

This is the best type of retirement plan for a self-employed person.

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 Fact? Or Fiction?

 It depends.

# Voluntary Correction

- What if a Mistake is Made?
  - Self-Correction Program
  - Voluntary Correction Program
  - Audit Closing Agreement Program

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Fake It? Or Fix It?



Fix-It Guide

# 401(k) Plans for Self-Employed Individuals

## 401(k) Fix-It Guide

-----Trends-----	-----Tips-----			
Potential Mistake	How to Find the Mistake	How to Fix the Mistake		How to Avoid the Mistake
		Corrective Action	Correction Program(s) Available	
1) Has your plan document been updated within the past few years to reflect recent law changes? <a href="#">(More)</a>	Review annual cumulative list published close to year-end to see if plan made all required law changes (e.g., Notice 2007-94). <a href="#">(More)</a>	EPCRS Adopt amendments for missed law changes.  Appendix D, Part II <a href="#">(More)</a>	VCP Audit CAP <a href="#">(More)</a>	Plan sponsors need to resort to a calendar (tickler) of when amendments must be completed. Review your plan document annually. Maintain regular contact with the company that sold you the plan. <a href="#">(More)</a>
2) Are the plan's operations based on the terms of the plan document? Failure to follow plan terms is a very common mistake. <a href="#">(More)</a>	Independent review of plan and its operation. <a href="#">(More)</a>	EPCRS Apply reasonable correction method that would place affected participants in the position they would have been in if there were no operational plan defects. <a href="#">(More)</a>	SCP* VCP Audit CAP <a href="#">(More)</a>	Plan sponsors need to develop a communication mechanism to make all relevant parties aware of changes on a timely and accurate basis (best practices). Due diligence on at least an annual basis to ensure plan terms are being followed. <a href="#">(More)</a>

# Retirement Plan Assistance



- [www.irs.gov/ep](http://www.irs.gov/ep)
  - Includes pages dedicated to 401(k) plans
- (877) 829-5500
  - Customer Account Services
- [RetirementPlanQuestions@irs.gov](mailto:RetirementPlanQuestions@irs.gov)
- Newsletters